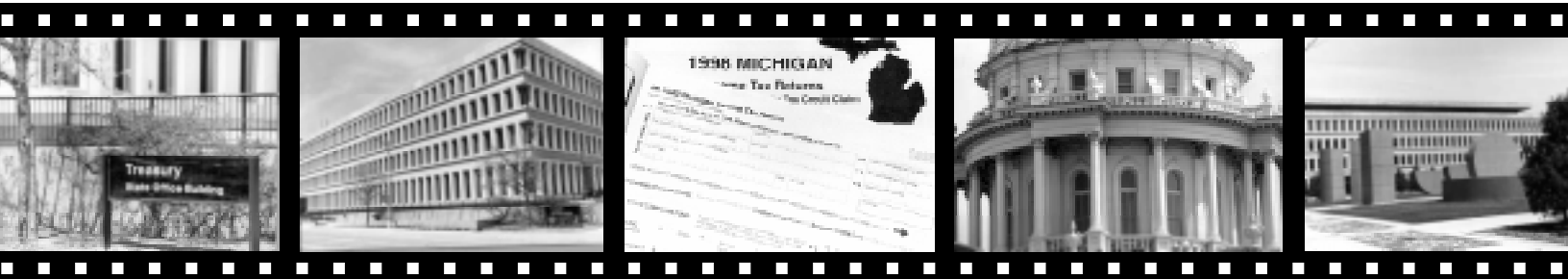


Michigan Department of Treasury

Annual Report of the State Treasurer

Fiscal Year 1997-1998



John Engler
Governor

Mark A. Murray
State Treasurer

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Note: Dollar figures in financial tables represent thousands of dollars unless indicated otherwise. Figures may not add to totals because of rounding.

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STATE OF MICHIGAN



JOHN ENGLER, Governor

DEPARTMENT OF TREASURY

TREASURY BUILDING, P.O. BOX 15128, LANSING, MICHIGAN 48901
MARK A. MURRAY, State Treasurer

July 26, 1999

Fiscal year 1998 was a time of continued innovation and accomplishment in the Michigan Department of Treasury.

One of the most notable accomplishments for the State of Michigan during 1998 was the credit rating upgrades from all three Wall Street rating agencies. Treasury played a principal role in securing this upgrade, which garnered Michigan nationwide recognition, contributed to overall savings to Michigan taxpayers, and increased financial flexibility for the state.

Technology changes and employee-driven process improvements enabled the Department of Treasury to continue streamlining and enhancing its services during 1998. These enhancements served to benefit Michigan citizens, including an on-line correction system that allowed faster income tax return processing; 24-hour access to state tax forms, data, and publications on Treasury's Internet web site; support for business and individual taxpayers through the new Audit Ombudsman Program; completion of critical computer software reprogramming for Year 2000 compatibility; and development of an electronic "data warehouse" for consolidation of taxpayer information.

The Department of Treasury helped to institute 24 tax cuts between 1991 and 1998, saving Michigan families and businesses more than \$11 billion. A U.S. Census Bureau report was the first to illustrate the effect of many of these tax reductions, indicating a 9 percent drop in Michigan's tax burden. Michigan's improved national ranking, from the nation's 15th worst in 1993 to 13th best in 1995, was by far the most dramatic change of any state.

Treasury launched a new anti-smuggling program designed to help the state recoup millions of dollars in revenue losses resulting from the illegal smuggling of tobacco products. The reduction in unpaid tobacco taxes means more revenue to support Michigan's schools.

I applaud all Treasury employees for their dedication, contribution, and creativity toward improving service for Michigan citizens.

Sincerely,

A handwritten signature in dark ink, reading "Mark A. Murray".

Mark A. Murray
State Treasurer

About the Michigan Department of Treasury

The Michigan Constitution provides for the office of the State Treasurer in Article 5, Section 3. The Governor appoints the State Treasurer with the advice and consent of the Senate. Governor John Engler appointed Mark A. Murray as the State's 40th State Treasurer on January 1, 1999.

The People of Michigan



John Engler
Governor

Mark A. Murray
State Treasurer

**Chief Deputy
Treasurer**
Madhu R. Anderson

Bureau of Finance
and Fiscal Policy

Office of
Communications

Office of Legal and
Legislative Affairs

Michigan Municipal Bond
Authority

**Financial and
Administrative Services**
Walter M. Wisniewski
Deputy Treasurer

Bureau of
Administrative Services

Office of Internal Audit

Bureau of Controller
Operations

Authorities and Trusts

**Tax Administration
and Oversight**
Nancy M. Taylor
Deputy Treasurer

Bureau of Local
Government Services

Bureau of Revenue

Bureau of Investments
Alan H. Van Noord

Responsibilities

Under the State Treasurer's direction, the Department of Treasury collects, invests, and disburses all State monies. The department administers the major tax laws, which in fiscal year 1998 generated 96 percent of the total State tax collections.

The Department of Treasury also administers property tax laws, safeguards the credit of the state and its local governments, audits county and municipal finance records, and holds unclaimed or abandoned property.

The Department of Treasury provides support services to the State Tax Commission, Michigan Municipal Bond Authority, State Assessors Board, Michigan State Hospital Finance Authority, Michigan Higher Education Facilities Authority, Michigan Higher Education Assistance Authority, Michigan Higher Education Student Loan Authority, and Michigan Education Trust. While the State Treasurer serves as a member or chair of several of these boards, by law each board operates independently of the State Treasurer, and their members are appointed by the Governor or serve by virtue of their position in state government.

Administration

The Michigan Department of Treasury is organized into an executive office and four areas of responsibility. During fiscal year 1998, departmental operating expenditures were \$115.6 million. At the close of fiscal year 1998, Treasury employed 1414 full-time workers. The Department of Treasury's main office is in downtown Lansing. Field offices are located throughout Michigan, many of which offer taxpayers local access to forms and information. These offices also provide a link to the main office for Treasury auditors and collectors who are assigned to Michigan's 83 counties. Treasury maintains offices in Chicago, Cleveland, Dallas, Los Angeles, and New York for proximity to multi-state taxpayers doing business in Michigan.

Commissions, boards, and authorities within the Michigan Department of Treasury:

Michigan Education Trust
Michigan Higher Education Assistance Authority
Michigan Higher Education Facilities Authority
Michigan Higher Education Student Loan Authority
Michigan Municipal Bond Authority
Michigan State Hospital Finance Authority
State Assessors Board
State Tax Commission

The State Treasurer serves as sole investment fiduciary of the following retirement systems:

Judges
Public School Employees
State Employees
State Police
Total Assets = \$42.2 billion on September 30, 1998

The State Treasurer serves as treasurer of the:

Mackinac Bridge Authority
Michigan Judges Retirement System
Michigan Legislative Retirement System
Michigan Public School Employees Retirement System
Michigan State Employees Retirement System
Michigan State Police Retirement System

The State Treasurer sits as a board member of the following agencies, authorities, and commissions:

Michigan Education Trust, Chair
Michigan Municipal Bond Authority, Chair
Local Emergency Financial Assistance Loan Board
Michigan Economic Growth Authority
Michigan Enterprise Zone Authority
Michigan Forest Finance Authority
Michigan Higher Education Assistance Authority
Michigan Higher Education Student Loan Authority
Michigan Jobs Commission
Michigan State Hospital Finance Authority
Michigan State Housing Development Authority
Michigan Strategic Fund
Michigan Underground Storage Tank Financial Assurance Authority
Renaissance Zone Review Board
Retirement Boards:
Judges
State Employees
State Police
State Administrative Board

Fiscal 1998: The Year in Review

Fiscal year 1998 was a time of continued innovation and accomplishment in the Michigan Department of Treasury. A few of the many achievements made by Treasury employees during the past year are described on the following pages.

Rating Agencies Reward Michigan's Financial Stewardship

The state of Michigan earned upgrades from all three Wall Street rating agencies during 1998, becoming the only state in the nation to garner such widespread recognition. The upgrades represent objective evidence of the state's financial strength.

Standard & Poor's upgraded Michigan's credit rating from AA to AA+, the highest rating the agency has given Michigan in at least two decades.

Michigan also earned upgrades from Moody's, which raised the state's rating from Aa2 to Aa1, and Fitch IBCA, which upgraded the state from AA to AA+. Both ratings are the highest either agency has ever provided the state. The increases from Moody's and Fitch are the highest provided to any state upgraded during 1997 and 1998.

The state's rating upgrades benefit Michigan families and businesses by helping the state achieve lower borrowing and interest costs for future bond issues. Lower costs mean greater overall savings to Michigan taxpayers, as well as increased financial flexibility for the state.

U.S. Census Notes Record Drop in State and Local Tax Burden

In May 1998, the U.S. Census Bureau released a report indicating that Michigan's tax burden fell nearly 9 percent between 1993 and 1995.

Michigan's ranking improved from the nation's 15th worst in 1993 to 13th best in 1995, better than all other Great Lake states. Michigan's improving national rank is by far the most dramatic change of any state.

Between 1991 and 1998, 24 tax cuts were signed into law, saving Michigan families and businesses more than \$11 billion. The U.S. Census report was the first to illustrate the effect of many of these state tax reductions, most notably Proposal A.

MET Application Period Yields 2,506 New Participants

The Michigan Education Trust (MET) received approximately 2,506 new applicants during an open enrollment period held in early 1999.

Seventy-one percent of new applications were for full benefits contracts. Another 22 percent of the applications were for limited benefits, with the remaining seven percent for community college benefits.

The MET program allows purchasers to prepay future college tuition costs for a Michigan child. Since the program's origination, more than 57,000 MET contracts have been sold.

Defined Contributions Plan Implemented

The defined Contributions (DC) retirement plan was implemented, offering all new state employees hired on or after March 31, 1997, a portable defined contribution retirement plan. Portable benefits allows these state employees, as well as employees hired before March 1997 who chose to switch to a defined contribution, the flexibility and security of changing jobs or even leaving state government without losing their retirement savings. This improves career mobility and enhances the state's ability to attract well-qualified employees. Additional advantages of the defined contribution program is much shorter vesting period (only four years instead of 10), and an opportunity for employees to control the investments of their savings in qualified funds.

Technology, Service Improvements Continue in 1998

Technology changes and employee-driven process improvements enabled the Michigan Department of Treasury to continue streamlining and enhancing its services during 1998.

Treasury employees were responsible for the following achievements:

The state's income tax processing was completed in record time. All of the state's 5 million 1997 individual income tax returns were processed as of August 1, 1998, with state taxpayers typically receiving refunds within three weeks. A new online error correction system, developed by Treasury employees, was a major reason for the increased processing speed.

Electronic filing was up 72 percent in 1998. More than 425,000 returns were filed electronically in 1998, up from 247,000 electronically-filed returns in 1997. Home heating credit claims could also be filed electronically beginning in fiscal year 1998.

During 1998, the department unveiled its Internet web site to provide 24-hour access to state tax forms, data, and publications. The new web site (www.treasury.state.mi.us) offers the latest news and information about Treasury, downloadable forms and publications, and many other Treasury-related materials.

A new Audit Ombudsman Program provides an additional level of practical support for business and individual taxpayers subject to field audits for Michigan taxes administered under the Revenue Act.

Treasury employees completed reprogramming of its most critical computer software to ensure Year 2000 compatibility.

The department began working to set up an electronic "data warehouse" to help consolidate all taxpayer information and make it easily accessible.

Treasury Announces Changes That Benefit Workers, Job Providers

An explanation of the standard that assists out-of-state businesses in determining if they are subject to Michigan's Single Business Tax (SBT) was released during 1998 by the Michigan Department of Treasury.

Revenue Administrative Bulletin (RAB) 98-1 explains the amended standard, known as "nexus," that was developed in response to court rulings. RAB 98-1 provides clear guidelines for all firms doing business in the state.

The revised nexus standard works in conjunction with two new laws passed by the Legislature in 1998. These new laws place Michigan job providers on an equal footing with out-of-state firms by eliminating throwback provisions from the state's Single Business Tax. They also offer an opportunity for out-of-state businesses to limit their past tax liability by participating in a voluntary disclosure agreement.

These changes are expected to benefit working families by creating incentives for businesses to locate and expand in Michigan.

State Pension Fund Grows

The State of Michigan Retirement Systems (SMRS) grew to \$42.1 billion in FY98, an increase over more than \$2 billion the previous year - and more than doubling the \$17.97 billion balance in 1991.

The State Treasurer is the sole fiduciary of the state's pension funds. These funds are held in trust by the state to fund public employee members future pension benefits.

The State of Michigan Retirement Systems consists of four funds: Michigan Public School Employees Retirement System (75.3% of the SMRS fund); Michigan State Employees Retirement System (21.6%); Michigan State Police Retirement System (2.3%); and Michigan Judicial Retirement System (0.8%).

Cigarette Stamping Program Helps Boost Tobacco Tax Revenues in 1998

A program to curb illegal cigarette smuggling was implemented during 1998 and is already working to restore lost revenues to the state's School Aid Fund.

As of May 1, 1998, cigarette wholesalers were required to mark each pack of cigarettes being sold to a Michigan retailer with a state tax stamp. Beginning September 1, 1998, all cigarette packs offered for sale at retail in the state must bear the stamp.

Between May and September 1998, the stamping program generated tobacco tax revenues that were nearly 12 percent higher than the same period in 1997.

The Department of Treasury has established a toll-free phone number so retailers and consumers can ask questions about the cigarette stamping program and notify authorities of the sale of untaxed cigarettes. Concerned individuals can call (800) 292-2824.

Treasury Completes Provisions of Durant Resolution Package

Marking the completion of the bonding component of the Durant Resolution package, the Michigan Municipal Bond Authority sent nearly \$313 million to over 450 non-Durant school districts during 1998.

In November 1997, the state made settlement offers to approximately 500 local and intermediate school districts with potential claims similar to those asserted by the Durant plaintiffs. All the non-Durant districts passed a resolution agreeing to the settlement offer.

The bonding option, which was available to non-Durant districts with settlement offers greater than \$75,000, allowed districts to bond and receive one-half their settlement amount up front. The remaining money will be distributed over 10 equal installments over the next 10 years.

The Durant settlement also included a change in payment schedules, spreading School Aid payments over 10 months during fiscal year 1998, and over 11 months in fiscal year 1999. The state previously made nine payments between October and June.

This change has resulted in these payments, totaling over \$9 billion, being much more closely in line with the state's revenue stream. Now funds are allocated to school districts much more evenly throughout the year, reducing the need for short term borrowing and substantially strengthening the state's financial position.



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THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

Independent Auditor's Report

March 5, 1999

Mr. Mark A. Murray
State Treasurer
State of Michigan

Dear Mr. Murray:

We have audited the accompanying schedule of State Treasurer's Common Cash - assets and equities, schedule of investment portfolios of specific funds, and schedule of investment revenues as of and for the fiscal years ended September 30, 1998 and September 30, 1997. These financial schedules are the responsibility of the Department of Treasury management. Our responsibility is to express an opinion on these financial schedules based on our audit. We did not audit the financial statements of the State Employees' Deferred Compensation Fund I (457), the State Employees' Deferred Compensation Fund II (401(k)), or the State Employees' Defined Contribution Retirement Fund. Those financial statements reflect total investments constituting 5.8% of the investments of the specific funds (Schedule 2) and total investment revenues constituting 1.9% of the investment revenues of all funds (Schedule 3). Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for these funds, is based solely upon the reports of the other auditors.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinion.

Mr. Mark A. Murray
State Treasurer
Page 2

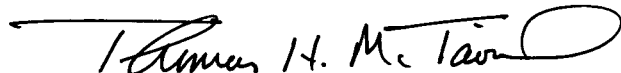
In our opinion, based on our audit and the reports of other auditors, the financial schedules referred to in the first paragraph present fairly, in all material respects, the State Treasurer's Common Cash assets and equities, the investment portfolios of specific funds, and the investment revenues as of and for the fiscal years ended September 30, 1998 and September 30, 1997 on the basis of accounting described in Note 1b.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 5, 1999 on our consideration of the Department of Treasury's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

The year 2000 supplementary information is not a required part of the financial schedules but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and do not express an opinion on it.

The supplemental tables and statistical data, listed in the foregoing table of contents, were not audited by us and, accordingly, we express no opinion on them.

Sincerely,

A handwritten signature in black ink, reading "Thomas H. McTavish". The signature is fluid and cursive, with a large loop at the end of the last name.

Thomas H. McTavish, C.P.A.
Auditor General

Schedule 1



State Treasurer's Common Cash - Assets and Equities (In Thousands of Dollars)

	Fiscal Year Ended	
	September 30, 1998	September 30, 1997
Assets:		
Cash on Hand (Vault)	\$ 212	\$ 177
Demand Deposits	138,022	240,890
Time Deposits - Regular	51,215	55,800
Prime Commercial Paper - At Cost	3,031,138	2,194,260
Emergency Municipal Loans	<u>2,104</u>	<u>3,319</u>
Total	<u><u>\$ 3,222,690</u></u>	<u><u>\$ 2,494,446</u></u>
Equities:		
Available Equity of Other Funds	\$ 2,967,272	\$ 2,274,984
Outstanding Warrants	<u>255,418</u>	<u>219,462</u>
Total	<u><u>\$ 3,222,690</u></u>	<u><u>\$ 2,494,446</u></u>

Schedule 2



Investment Portfolios of Specific Funds (In Thousands of Dollars)

Fund	Short-Term Investments	Government Securities	Corporate Bonds, Notes and Contracts	Preferred Stock	Common Stock	Mortgages	Real Estate	Alternative Investments	Third Party Administered	International Equities	Fiscal Year Ended	
											Sept. 30, 1998 Total	Restated Sept. 30, 1997 Total
Legislative Retirement	\$ 988	\$ 45,946	\$ 19,069	\$ -0-	\$ 86,782	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ 152,785	\$ 151,626
State Police Retirement	54,488	124,940	111,311	25	479,149	1,861	78,970	86,320	-0-	39,823	976,887	926,718
State Employees' Retirement	371,920	1,189,022	1,053,974	256	4,511,882	34,618	758,056	816,095	-0-	375,821	9,111,644	8,871,168
Public School Employees' Retirement	1,898,022	3,968,363	3,638,756	881	15,499,470	108,702	2,544,813	2,804,465	-0-	1,294,860	31,758,332	29,954,808
Judges' Retirement	11,427	44,338	37,478	9	165,157	272	26,306	28,689	-0-	13,447	327,123	318,038
State Employees Deferred Compensation:												
Fund I 457	359	-0-	-0-	-0-	-0-	-0-	-0-	-0-	1,884,965	-0-	1,885,324	1,877,021
Fund II 401 (k)	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	749,052	-0-	749,052	700,658
State Employees' Defined Contribution	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	145,766	-0-	145,766	6,407
Michigan Veterans' Trust	8,380	44,577	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	52,957	52,122
Game & Fish Protection Trust Fund	51,044	21,007	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	72,051	61,568
Michigan Natural Resources Trust Fund	165,797	53,452	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	219,249	203,033
Michigan State Parks Endowment Fund	53,947	22,323	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	76,270	65,055
Children's Trust	3,188	4,329	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	7,517	6,979
State Lottery - Deferred Prize Fund	23,607	1,198,934	-0-	0-	-0-	-0-	-0-	-0-	-0-	-0-	1,222,541	1,157,204
Michigan Higher Education Assistance Authority	1,425	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	1,425	1,422
Michigan Education Trust, Plans I & II	53,428	333,647	270,710	131,806	7,027	-0-	-0-	-0-	-0-	-0-	796,618	728,437
Gifts, Bequests, and Deposits Investment	28,604	14,759	-0-	1	102	-0-	-0-	-0-	-0-	-0-	43,466	42,143
Federal Housing Administration - Mortgages Escrow	9,382	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	9,382	22,221
Totals	\$ 2,736,006	\$ 7,065,637	\$ 5,131,298	\$ 132,978	\$ 20,749,569	\$ 145,453	\$ 3,408,145	\$ 3,735,569	\$ 2,779,783	\$ 1,723,951	\$ 47,608,389	\$ 45,146,628

The accompanying notes are an integral part of the financial schedules.

Schedule 3

Investment Revenues (In Thousands of Dollars)



Fiscal Year Ended September 30

Fund	Common Cash	Specific Funds	1998 Total Revenues	Restated 1997 Total Revenues
General	\$ (17,192)		\$ (17,192)	\$ (72,004)
Counter - Cyclical Budget and Economic Stabilization	60,131		60,131	69,283
Game and Fish Protection	1,370		1,370	601
State Aeronautics	1,442		1,442	1,218
Michigan Veterans' Trust	410	\$ 4,107	4,517	4,294
State Trunkline	11,332		11,332	9,156
Michigan State Waterways	2,799		2,799	2,315
Blue Water Bridge	780		780	536
Michigan Transportation	12,473		12,473	9,809
Comprehensive Transportation	3,259		3,259	3,804
Marine Safety	307		307	321
Game and Fish Protection Trust Fund	2,859	1,854	4,713	3,724
State Park Improvement	646		646	376
Forest Development Fund	588		588	449
Recreation Bond Fund - Local Projects	496		496	707
Michigan Conservation Endowment Fund	1,250		1,250	1,234
Michigan Natural Resources Trust Fund	9,865	5,028	14,893	12,201
Michigan State Parks Endowment Fund	3,267	1,927	5,194	3,868
Safety Education and Training	153		153	150
Environmental Protection Bond	1,921		1,921	1,959
Workplace Health and Safety	1,345		1,345	1,361
Bottle Deposits Fund	2,999		2,999	1,999
State Construction Code	660		660	442
Children's Trust	64	480	544	505
Homeowner Construction Lien Recovery	36		36	47
Michigan Nongame Fish and Wildlife	219		219	199
1989 State Trunkline Fund Bond Proceeds	(72)		(72)	(15)
1992 State Trunkline Bond Proceeds	495		495	808
1992 State Trunkline Critical Bridge Bond Proceeds	104		104	111
1992 Comprehensive Transportation Bond Proceeds	900		900	1,057
1994 State Trunkline Bond Proceeds	(396)		(396)	316
1996 State Trunkline Fund Bond Proceeds	2,079		2,079	2,370
Michigan Underground Storage Tank Financial Assurance	782		782	(226)
Liquor Purchasing Revolving Fund	2,421		2,421	---
State Lottery - Deferred Prize Fund	4,263	190,494	194,757	128,983
Michigan Higher Education Assistance Authority	---	78	78	80
State Sponsored Group Insurance	9,699		9,699	11,965
State Water Pollution Control Loan	625		625	427
Combined State Trunkline Bond and Interest Redemption	31		31	42
Combined Comprehensive Transportation Bond and Interest Redemption	176		176	103
Debt Service - MUSTFA - Finance Authority	56		56	---
Recreation Bond Fund - State Projects	311		311	315
Legislative Retirement	118	11,611	11,729	30,540
State Police Retirement	384	76,077	76,461	178,693
State Employees' Retirement	2,274	715,737	718,011	1,699,093
Public School Employees' Retirement	6,436	2,437,077	2,443,513	5,794,850
Judges' Retirement	73	26,394	26,467	61,992
Michigan Employment Security Act Contingent	4,781		4,781	4,248
Michigan Education Trust	---	70,817	70,817	83,835
Vietnam Veterans' Memorial Monument	8		8	7
Children's Institute Trust	6		6	5
Gifts, Bequests, and Deposits Investment	1,598	1,235	2,833	2,897
Silicosis, Dust Disease, and Logging Industry Compensation	358		358	382
Second Injury	1,477		1,477	1,457
Municipal Employees' Retirement	17		17	794
Hospital Patients' Trust	49		49	10
Federal Housing Administration - Mortgages Escrow	---	91	91	1,133
Self-Insurers' Security	169		169	141
State Employees' Deferred Compensation I (457)	---	58,486	58,486	205,986
State Employees' Deferred Compensation II (401 (k))	3	18,023	18,026	129,414
State Employees' Defined Contribution Fund	---	(4,892)	(4,892)	89
Workers' Disability Compensation Multiple Trust Funds	7		7	6
Hazardous and Solid Waste Disposal Facilities Closure Guarantee	202		202	179
Urban Land Assembly Loan	167		167	164
Utility Consumer Representation	45		45	32
Bankrupt Self-Insured Corporations' Workers' Disability Fund #1	33		33	31
Bankrupt Self-Insured Corporations' Workers' Disability Fund #2	13		13	13
Bankrupt Self-Insured Corporations' Workers' Disability Fund #4	33		33	28
Bankrupt Self-Insured Corporations' Workers' Disability Fund #5	6		6	6
Bankrupt Self-Insured Corporations' Workers' Disability Fund #6	5		5	5
Bankrupt Self-Insured Corporations' Workers' Disability Fund #7	3		3	5
Bankrupt Self-Insured Corporations' Workers' Disability Fund #8	14		14	13
Bankrupt Self-Insured Corporations' Workers' Disability Fund #9	6		6	10
Bankrupt Self-Insured Corporations' Workers' Disability Fund #11	18		18	17
Bankrupt Self-Insured Corporations' Workers' Disability Fund #12	24		24	22
Fred Sanders, Inc., Workers' Compensation Trust	5		5	9
Transportation Related Trust Funds	(63)		(63)	(8)
Totals	\$ 143,222	\$ 3,614,624	\$ 3,757,846	\$ 8,400,988

The accompanying notes are an integral part of the financial schedules.

Notes to Financial Schedules



Note 1: Significant Accounting Policies

a. Report Presentation

The accompanying financial schedules report the assets and equities of the State Treasurer's common cash (Schedule 1), investment portfolios of specific funds (Schedule 2), and investment revenues of the common cash and specific funds (Schedule 3).

The State Treasurer's common cash and specific funds are accounted for in various funds of the State of Michigan and reported in the *State of Michigan Comprehensive Annual Financial Report*.

The *State of Michigan Comprehensive Annual Financial Report* provides more extensive general disclosures regarding the State Treasurer's common cash and deposits and investments. These disclosures provide information regarding market values and risk levels of the deposits and investments.

Common Cash Pool

The State Treasurer, under the authority provided by state statute, manages the state's common cash pool. The pooling of cash allows the State Treasurer to invest money not needed to pay immediate obligations so that investment earnings on available cash are maximized. Pool investments are not segregated by fund; rather, each contributing fund's balance is treated as equity in the common cash pool.

Investments

The State Treasurer, under authority provided by state statutes, manages most investments for the State of Michigan.

Short-Term Investments: This category includes each of the listed fund's individually held short-term investments, the fund's equity in the State Treasurer's common cash pool, and receivables and payables pertaining to security trades not yet settled at fiscal year-end.

Alternative Investments: These investments consist of limited partnerships, preferred stock, common stock, corporate bonds and notes, and convertible bonds.

International Equities (Derivatives): These investments are swap agreements.

The State Treasurer does not employ the use of derivatives in the investment of the State Treasurer's common cash pool or the investment of trust funds other than the pension trust funds.

Derivatives are financial instruments whose value is derived from, or based on, an underlying security, asset, reference rate or index. The State Treasurer uses derivatives for a small amount of the pension trust fund portfolios, primarily to provide additional diversification. However, derivatives are not used for speculation and they are not used to leverage the investment portfolios. Less than 6 percent of the total pension trust funds portfolio has been invested from time to time in futures contracts and swap agreements. Swap agreements, which are tied to stock market indices in seventeen foreign countries, represent the largest category of derivatives used and total approximately 4.1 percent of the total portfolio.

b. Basis of Accounting

Schedule 1, *State Treasurer's Common Cash - Assets and Equities*, is presented on the cash basis of accounting. Schedule 2, *Investment Portfolios of Specific Funds*, and Schedule 3, *Investment Revenues*, are reported on the accrual basis of accounting.

c. Valuations of Investments

Schedule 1

All investments are reported at cost.

Demand deposits represent the account balance reported on bank statements and include deposits which are in the process of being collected through the banking system.

The market value of prime commercial paper at September 30, 1998 and 1997 was \$3,042 and \$2,202 million, respectively.



Schedule 2

Methods used to value investments:

All investments are reported at fair value, except for short-term investments, which are reported at cost. Securities traded on a national exchange are valued at last reported sales price. The fair value of real estate investments is based on independent appraisals. Investments that do not have an established market are reported at estimated fair value.

Third Party Administered: These investments are for the Deferred Compensation Funds and the State Employees' Defined Contribution Fund. Participants direct their money within a group of mutual funds and other investments.

d. Securities Lending Transactions

Under the authority of Act No. 314 of the Public Acts of 1965, the state lends securities to broker-dealers and other entities as collateral that will be returned for the same securities in the future. One of the state's custodial banks manages the securities lending program and receives securities as collateral. The custodian is not liable for any losses unless there is negligence or willful misconduct on its part. The collateral securities cannot be pledged or sold by the state and the state receives collateral in the amount of 102 percent of the market value of the securities lent. The types of securities lent are government securities, corporate bonds and equities, and the collateral received is cash, cash equivalents, and U.S. Treasury securities. There is no restriction on the amount of securities lent. Because the loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral. At September 30, 1998 the state had no outstanding credit risk. The market value of the securities lent at September 30, 1998 and 1997 was \$2,434.4 and \$2,035.2 million respectively.

e. Accounting Changes and Restatements

Schedule 2: Effective October 1, 1997, all investment asset balances, excluding short-term investments, are reported at fair value, as required by Governmental Accounting Standards Board Statement number 31. Prior year balances for non-retirement funds have been restated to fair value, with the exception of short-term investments, which are reported at cost (retirement funds were previously reported at fair value).

Schedule 3: Effective October 1, 1997, as required by Governmental Accounting Standards Board Statement number 31, prior year revenues for non-retirement funds have been restated to include unrealized gains and losses for the fiscal year ended September 30, 1997 (retirement funds were previously reported at fair value).

Note 2: Change in Reporting of Funds

Effective for fiscal year ended September 30, 1997:

The Bottle Deposits Fund and 1996 State Trunkline Fund Bond Proceeds were added as new funds participating in the Common Cash Fund on Schedule 3. The State Employees' Defined Contribution Fund was added to Schedules 2 and 3. The 1984 Comprehensive Transportation Bond Proceeds and the Bankrupt Self-insured Corporations' Workers Disability Fund #3 were removed from Schedule 3.

Effective for fiscal year ended September 30, 1998:

Municipal Employees' Retirement was removed from Schedule 2. This fund became a public corporation on August 15, 1996. The Liquor Purchasing Revolving Fund and Debt Service-MUSTFA-Finance Authority were added as new funds participating in the Common Cash Fund on Schedule 3. The Bankrupt Self-Insured Corporations' Workers' Disability Fund #10, the Michigan State Fair Revolving Fund, and the Department of Natural Resources Magazine were removed from Schedule 3.

REQUIRED SUPPLEMENTARY INFORMATION

YEAR 2000 ISSUES

In October 1998, the Governmental Accounting Standards Board (GASB) issued Technical Bulletin 98-1 entitled, *Disclosures About Year 2000 Issues*. The provisions of the GASB technical bulletin, effective for financial statements on which the auditor's report is dated after October 31, 1998, require the Department to make disclosures in the notes to the financial statements about its readiness in addressing year 2000 issues for its computer systems and other electronic equipment. In March 1999, GASB issued an amended Technical Bulletin, 99-1, allowing disclosure of year 2000 issues in required supplementary information or in the notes to the financial statements. Retroactive application was allowed.

The year 2000 issue is the result of computer hardware and software programs that utilize a two digit reference to identify the year. Some systems may not be able to distinguish the year 2000 from 1900. These shortcomings in electronic data-processing systems and other electronic equipment may adversely affect operations in the year 1999 and beyond.

Disclosures regarding the Statewide year 2000 remediation efforts are available in the State of Michigan Comprehensive Annual Financial Report for the fiscal year ending September 30, 1998.

The following stages have been identified as necessary to implement a year 2000 compliant system:

Awareness stage - encompasses establishing a budget and project plan for dealing with the year 2000 issue.

Assessment stage - when the organization begins the actual process of identifying all of its systems and individual components of the systems. An organization may decide to review all system components for year 2000 compliance or, through a risk analysis, identify only mission critical systems and equipment to check for compliance.

Remediation stage - when the organization actually makes changes to systems and equipment. This stage deals primarily with the technical issues of converting existing systems, or switching to compliant systems. During this stage, decisions are made on how to make the systems or processes year 2000 compliant, and the required system changes are made.

Validation/Testing stage - when the organization validates and tests the changes made during the conversion process. The development of test data and test scripts, the running of test scripts, and the review of test results are crucial for this stage of the conversion process to be successful. If the testing results show anomalies, the tested area needs to be corrected and retested.

The State Treasurer is the investment fiduciary for the State of Michigan Retirement Systems. The Bureau of Investments, within the Department of Treasury, reports directly to the State Treasurer. The Bureau provides a wide range of investment management services. The Trust Accounting Division of the Bureau of Investments serves primarily as the investing accounting office and is responsible for accounting, reporting and compliance with accounting standards.

The Bureau of Investments has identified the following "mission critical" systems:

Complete Asset Management Reporting and Accounting System (CAMRA) and Fully Integrated Loan Management System (FILMS): The investment accounting software used by the Trust Accounting Division, has been vendor certified as having completed the validation/testing stage. The Bureau has completed the validation/testing stage or has upgraded with year 2000 compliant versions, the communication and office production tools currently in use.

State Street Bank and Trust (SSB): The Bureau has been informed that its custodial bank (SSB) has performed extensive work on the year 2000 issues. The investment accounting functions performed by SSB are: custodial interface; pricing of the investment portfolio; collection of dividends and interest; factors and holdings for certain investments. SSB has completed the validation/testing stage for these functions. The In-Sight Internet application system is in the validation/testing stage. The security lending process that SSB performs for the Bureau is being monitored, however its status has not been determined. The Trust Accounting Division will continue to monitor the progress of these compliance efforts.

Depository Trust Company (DTC): DTC, the organization that provides the means for the Bureau to confirm and affirm all buy-sale transactions with the broker community, has informed the Bureau that they have completed the validation/testing stage. All cash flows are initiated by or through DTC. SSB is a direct participant of DTC. Therefore, buy and sales transactions, interest and dividends collections, maturities, and calls are processed through DTC, to SSB and to the Bureau.

The Bureau of Investments is completing the year 2000 stages in the normal course of business and has not required additional funding to complete these activities.

Management believes that the Bureau has the correct plan in place and that the Bureau will be able to process date and/or date-related information correctly prior to, during, and after January 1, 2000. The Bureau of Investments will continue to monitor the progress of non-compliant vendors and assess the compliance representations made by the mission critical vendors. However, because of the unprecedented nature of the year 2000 issue, its effect and success of the related remediation efforts cannot be fully determinable until the year 2000 and thereafter. Consequently, management cannot guarantee that the Bureau is or will be year 2000 ready, that the Bureau's remediation efforts will be successful in whole or in part, or that parties with whom the Bureau does business will be year 2000 ready.

Cash and Investments

The State Treasurer manages the state's cash so funds not needed to pay immediate obligations are invested to earn income. Investments include time certificates of deposit and prime commercial paper as detailed in Schedule 1, *State Treasurer's Common Cash - Assets and Equities*.

Statutes also allow the State Treasurer to loan funds from the common cash pool to financially troubled municipalities in Michigan and to make common cash available to Michigan farmers experiencing financial stress.

The common cash fund pools the cash balances of certain state funds until paid as provided by law. Manageable common cash includes the following funds:

- General
- School Aid
- Budget Stabilization
- Special Revenue & Enterprise
- Internal Service
- Trust and Agency

The State Treasurer is authorized to transfer cash on hand and on deposit among these funds to best manage the available cash, maximize short-term investment earnings and ensure that State obligations are paid when due.



Table 1

Investment Revenues for Fiscal Years 1989-1998 (In Thousands of Dollars)

Fiscal Year	General Fund Common Cash Earnings (Expenses) (a)	Public School Employees' Retirement	State Employees' Retirement	State Police Retirement	Judges' Retirement	Probate Judges' Retirement (b)	Other Investment Funds	Totals (c)
1998	\$ (17,192)	\$ 2,443,513	\$ 718,011	\$ 76,461	\$ 26,467	- - -	\$ 510,586	\$ 3,757,846
1997	(72,004)	5,794,850	1,699,093	178,693	61,992	- - -	738,364	8,400,988
1996	(64,749)	3,325,848	965,921	101,983	35,277	- - -	759,728	5,124,008
1995	(67,292)	1,381,419	407,813	41,579	14,731	- - -	448,830	2,227,080
1994	(10,487)	1,112,592	328,409	33,787	12,001	- - -	396,095	1,872,397
1993	(1,176)	1,165,741	337,276	35,656	12,426	\$ 1,187	357,083	1,907,007
1992	(3,747)	814,420	244,287	26,341	8,343	1,184	332,244	1,423,076
1991	(48,853)	963,738	280,352	29,460	9,104	1,344	338,069	1,573,054
1990	(16,182)	1,040,167	307,571	32,145	9,544	1,573	348,689	1,723,278
1989	7,039	1,137,086	340,939	35,040	10,000		399,931	1,931,608

Fiscal Year Ending

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
(a) Total State Treasurer's Common Cash Fund and General Obligation Note Retirement Fund Earnings	\$144,074	\$ 132,566	\$ 64,236	\$ 57,069	\$ 50,748	\$ 64,435	\$ 97,125	\$ 99,461	\$ 100,067	\$ 143,222
Less distribution of earnings to retirement and other funds which are reported in their earnings totals	137,035	148,748	113,089	60,816	51,924	74,922	164,417	164,210	172,071	160,414
General Fund Common Cash earnings (expenses)	\$ 7,039	\$ (16,182)	\$ (48,853)	\$ (3,747)	\$ (1,176)	\$ (10,487)	\$ (67,292)	\$ (64,749)	\$ (72,004)	\$ (17,192)

(b) Effective fiscal year 1993, the Probate Judges' Retirement Fund was combined with the Judges' Retirement Fund.

(c) 1997 total has been restated, see note 1e.

Table 2



Statement of Actual Available Month-End Common Cash (In Millions of Dollars)

Month	Combined General Fund and School Aid Fund	Budget Stabilization Fund	Other Funds	Manageable Common Cash (a)	Retirement Funds	Bond Funds(b)	Total Common Cash (c)
October 1997	\$ (681.7)	\$ 1,152.4	\$ 1,334.3	\$ 1,805.0	\$ 76.9	\$ 131.4	\$ 2,013.3
November	(31.1)	1,152.4	1,350.7	2,472.0	243.8	111.6	2,827.4
December	(139.9)	1,152.4	1,366.7	2,379.2	159.5	83.5	2,622.2
January 1998	70.2	1,162.4	1,458.4	2,691.0	148.9	94.1	2,934.0
February	(515.0)	1,162.4	1,615.5	2,262.9	184.8	89.1	2,536.8
March	(889.8)	1,178.8	1,536.5	1,825.5	126.4	91.6	2,043.5
April	(1,121.6)	983.4	1,517.0	1,378.8	99.3	189.7	1,667.8
May	(993.5)	983.4	1,523.6	1,513.5	112.1	187.3	1,812.9
June	(931.1)	983.4	1,442.8	1,495.1	137.5	305.7	1,938.3
July	(799.1)	997.6	1,449.2	1,647.7	169.5	272.7	2,089.9
August	38.5	997.6	1,436.7	2,472.8	119.8	268.8	2,861.4
September	136.0	1,000.5	1,426.3	2,562.8	140.3	264.2	2,967.3

- (a) Manageable Common Cash Includes the General, School Aid and Budget Stabilization Funds, Special Revenue, Enterprise, Internal Service, Trust and Agency Funds, and State Building Authority Advance Financing Funds. The State Treasurer is authorized to transfer cash on hand and on deposit among these funds in such a manner as to best manage the available cash on hand.
- (b) Includes Debt Service, Capital Projects and Bond Funds.
- (c) Includes Manageable Common Cash, Retirement, Debt Service, Capital Projects and Bond Funds.

Table 3



Common Cash History (In Millions of Dollars)

Fiscal Year Ended	Combined General Fund and School Aid Fund	Budget Stabilization Fund	Other Funds	Manageable Common Cash (a)	Retirement Funds	Bond Funds(b)	Total Common Cash (c)
September 1989	\$ 288.4	\$ 421.5	\$ 1,124.7	\$ 1,834.6	\$138.0	\$ 62.9	\$ 2,035.5
September 1990 (d)	59.7	445.8	881.2	1,386.7	208.8	221.2	1,816.7
September 1991 (d)	(167.7)	406.2	684.0	922.5	181.7	125.1	1,229.3
September 1992 (d)	(210.0)	188.6	869.0	847.6	235.8	520.3	1,603.7
September 1993 (d)	32.7	20.7	1,067.6	1,121.0	238.6	349.2	1,708.8
September 1994 (d)	226.2	311.7	1,307.8	1,845.7	356.8	309.8	2,512.3
September 1995	(342.6)	1,083.4	1,369.1	2,109.9	586.0	352.2	3,048.1
September 1996	(700.0)	1,173.4	1,387.8	1,861.2	298.2	205.2	2,364.6
September 1997	(493.9)	1,152.4	1,339.6	1,998.1	133.4	143.5	2,275.0
September 1998	136.0	1,000.5	1,426.3	2,562.8	140.3	264.2	2,967.3

- (a) Manageable Common Cash Includes the General, School Aid and Budget Stabilization Funds, Special Revenue, Enterprise, Internal Service, Trust and Agency Funds, and State Building Authority Advance Financing Funds. The State Treasurer is authorized to transfer cash on hand and on deposit among these funds in such a manner as to best manage the available cash on hand.
- (b) Includes Debt Service, Capital Projects and Bond Funds.
- (c) Includes Manageable Common Cash, Retirement, Debt Service, Capital Projects and Bond Funds. Fiscal years 1989 through 1994 include Imprest Cash and/or transactions in process.
- (d) General, School Aid and Budget Stabilization Funds balance includes \$16.6 million of transactions in process for 1990, \$14.1 million for 1991, \$10.8 million for 1992, \$18.6 million for 1993 and \$26.1 million for 1994.

Table 4



State Treasurer's Common Cash Fund Cash Balances and Transactions by Fund (In Thousands of Dollars)

Fund	Cash Balances 10-1-97	Receipts (a)	Disburse- ments (b)	Transfers In	Transfers Out	Cash Balances 9-30-98	Warrants Outstanding	Available Balances 9-30-98
GENERAL & SCHOOL AID								
General	\$ 65,245	\$ 23,555,689	\$ 22,672,580	\$ 1,291,348	\$ 1,551,208	\$ 688,494	\$ 189,118	\$ 499,376
School Aid	(443,170)	8,207,311	9,324,318	1,204,789	7,661	(363,049)	290	(363,339)
Total General and School Aid	\$ (377,925)	\$ 31,763,000	\$ 31,996,898	\$ 2,496,137	\$ 1,558,869	\$ 325,445	\$ 189,408	\$ 136,037
BUDGET STABILIZATION								
Budget Stabilization	\$ 1,152,406	\$ 60,131	\$ -0-	\$ -0-	\$ 212,000	\$ 1,000,536	\$ -0-	\$ 1,000,536
Total Budget Stabilization	\$ 1,152,406	\$ 60,131	\$ -0-	\$ -0-	\$ 212,000	\$ 1,000,536	\$ -0-	\$ 1,000,536
SPECIAL REVENUE								
Game and Fish Protection	\$ 19,153	\$ 49,568	\$ 46,270	\$ 3,915	\$ 791	\$ 25,574	\$ 163	\$ 25,411
Michigan Employment Security Act-Administration	10,024	121,166	142,792	14,352	2,785	(37)	549	(585)
State Aeronautics	25,803	74,226	76,183	-0-	199	23,648	920	22,728
Michigan Veterans' Trust	6,804	15,324	13,699	-0-	49	8,380	24	8,356
State Trunkline	235,137	548,193	1,127,762	715,997	69,485	302,081	22,488	279,593
Michigan State Waterways	47,503	10,511	20,708	14,309	235	51,380	102	51,279
Blue Water Bridge	9,594	10,580	7,650	-0-	2,369	10,155	8	10,147
Michigan Transportation	204,999	1,759,185	851,129	149	927,953	185,251	907	184,344
Comprehensive Transportation	111,891	70,363	240,825	147,228	23,669	64,987	324	64,663
Marine Safety	4,104	5,769	3,731	-0-	963	5,178	31	5,147
Game and Fish Protection Trust	47,457	21,845	14,637	302	3,923	51,044	-0-	51,044
State Park Improvement	12,490	29,093	23,995	-0-	173	17,415	361	17,054
Forest Development	9,672	18,452	19,285	-0-	130	8,710	247	8,463
Recreational Bond Fund - Local Projects	21,831	1,250	962	-0-	5	22,115	10	22,105
Michigan Natural Resources Trust	167,895	70,645	62,884	182	10,040	165,797	788	165,009
Michigan State Parks Endowment	51,203	15,484	22,704	10,000	37	53,947	48	53,898
Safety Education and Training	3,623	5,175	4,828	-0-	35	3,935	36	3,899
Workplace Health and Safety	25,172	1,347	3,654	-0-	4	22,863	17	22,845
Bottle Deposits	59,762	19,340	17,556	34,352	96	95,801	20	95,782
State Construction Code	8,370	12,823	7,797	-0-	69	13,327	32	13,295
Children's Trust	1,966	6,553	5,330	10	10	3,188	34	3,155
State Casino Gaming	-0-	924	5,689	482	93	(4,375)	1	(4,376)
Homeowner Construction Lien Recovery	716	416	1,029	-0-	6	97	2	95
Michigan Nongame Fish and Wildlife	3,780	1,560	635	-0-	4	4,701	15	4,686
1984 Comprehensive Transportation Bond Proceeds	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
State Building Authority Equipment Advance Financing	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
State Building Authority Advance Financing	(37,301)	97,849	68,020	936	1,455	(7,992)	415	(8,407)
Michigan Underground Storage Tank Financial Assurance (MUSTFA)	787	60,226	51,760	4,031	9,991	3,292	270	3,022
State Building Authority Advance Financing	(85,787)	88,526	26,004	804	-0-	(22,461)	211	(22,672)
Total Special Revenue	\$ 966,649	\$ 3,116,392	\$ 2,867,519	\$ 947,049	\$ 1,054,570	\$ 1,108,001	\$ 28,024	\$ 1,079,977

(a) Receipts include \$ 21,597.3 million of securities sold and matured.

(b) Disbursements include \$ 22,428.4 million of securities purchased.

(c) In Fiscal 1997-98, State Water Pollution Control Loan Fund reclassified into Enterprise Fund grouping.

Table 4



Continued... (In Thousands of Dollars)

Fund	Cash Balances 10-1-97	Receipts (a)	Disburse- ments (b)	Transfers In	Transfers Out	Cash Balances 9-30-98	Warrants Outstanding	Available Balances 9-30-98
BOND, DEBT SERVICE & CAPITAL PROJECTS								
Recreation Bond Fund-Local Projects	\$ 10,893	\$ 498	\$ 3,501	\$ -0-	\$ 4	\$ 7,885	\$ -0-	\$ 7,885
Environmental Protection Bond	19,896	93,236	31,722	-0-	1,149	80,261	954	79,307
School Bond Loan	23,643	160,256	63,061	-0-	-0-	120,838	-0-	120,838
1989 State Trunkline Bond Proceeds	(590)	132	1,736	120	54	(2,128)	51	(2,180)
1992 State Trunkline Bond Proceeds	14,385	14,466	24,764	-0-	19	4,067	26	4,042
1992 State Trunkline Critical Bridge Bond Proceeds	1,945	138	247	-0-	252	1,583	-0-	1,583
1992 Comprehensive Transportation Bond Proceeds	16,783	865	2,442	-0-	5	15,202	-0-	15,202
1994 State Trunkline Bond Proceeds	8,722	51,350	58,488	5	1,217	373	522	(149)
1996 State Trunkline Bond Proceeds	45,970	2,079	19,842	-0-	-0-	28,207	872	27,334
MUSTFA Finance Authority	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Combined State Trunkline Bond and Interest Redemption	-0-	1,866	61,430	59,577	1	13	3	10
Water Pollution Control Bond and Interest Redemption	-0-	-0-	5,144	5,144	-0-	-0-	-0-	-0-
Combined Comprehensive Transportation Bond and Interest Redemption	-0-	39,641	62,717	23,076	-0-	-0-	-0-	-0-
MUSTFA Finance Authority Debt Service	-0-	32,238	29,843	9,695	7,108	4,982	-0-	4,982
Recreation and Environmental Protection Bond Redemption	-0-	-0-	43,373	43,373	-0-	-0-	-0-	-0-
School Loan Bond Redemption	-0-	-0-	15,300	15,300	-0-	-0-	-0-	-0-
State Building Authority	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Recreation Bond Fund - State Projects	5,450	314	441	-0-	2	5,321	-0-	5,321
State Building Authority - Capital Projects	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Total Bond, Debt Service and Capital Projects	\$ 147,096	\$ 397,080	\$ 424,050	\$ 156,290	\$ 9,811	\$ 266,605	\$ 2,428	\$ 264,177
ENTERPRISE								
Liquor Purchasing Revolving	\$ 44,378	\$ 510,502	\$ 398,192	\$ -0-	\$ 104,183	\$ 52,504	\$ 5,478	\$ 47,026
State Lottery	19,424	1,083,728	455,460	-0-	624,086	23,607	2,281	21,326
Department of Natural Resources Magazine	(1,448)	-0-	-0-	1,449	-0-	-0-	-0-	-0-
Michigan Higher Education Assistance Authority	-0-	1,425	1,425	-0-	-0-	-0-	-0-	-0-
Accident Fund of Michigan	-0-	39	39	-0-	-0-	-0-	-0-	-0-
Michigan State Housing Development Authority	-0-	14,898	14,898	-0-	-0-	-0-	1	(1)
Michigan Education Trust	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
State Water Pollution Control Loan (c)	8,822	92,502	107,099	17,354	-0-	11,578	-0-	11,578
Total Enterprise	\$ 71,176	\$ 1,703,095	\$ 977,114	\$ 18,803	\$ 728,269	\$ 87,689	\$ 7,760	\$ 79,929
INTERNAL SERVICE								
Correctional Industries Revolving	\$ (4,430)	\$ 29,317	\$ 25,006	\$ -0-	\$ 273	\$ (392)	\$ 404	\$ (796)
Motor Transport	1,001	47,777	54,950	35	25	(6,162)	163	(6,326)
Office Services Revolving	1,097	57,297	58,669	-0-	68	(343)	599	(941)
Information Technology Revolving	(25,459)	94,922	95,522	-0-	-0-	(26,059)	616	(26,675)
Risk Management	12,659	45,956	47,385	-0-	-0-	11,229	10	11,220
State Sponsored Group Insurance	212,893	519,609	609,850	-0-	26	122,626	963	121,663
Total Internal Service	\$ 197,759	\$ 794,879	\$ 891,382	\$ 35	\$ 392	\$ 100,899	\$ 2,755	\$ 98,145
RETIREMENT								
Legislative	3,577	92,299	\$ 96,675	\$ -0-	\$ -0-	\$ (799)	\$ 41	\$ (841)
State Police	3,083	747,446	743,287	-0-	-0-	7,242	234	7,008
State Employees'	15,214	7,139,843	7,132,457	-0-	-0-	22,600	2,939	19,661
Public School Employees'	122,085	24,128,766	24,127,466	(18)	-0-	123,367	7,956	115,410
Judges'	2,498	229,650	232,965	-0-	-0-	(817)	75	(892)
Municipal Employees' Retirement	1,402	(36)	1,367	-0-	-0-	-0-	-0-	-0-
Total Retirement	\$ 147,859	\$ 32,337,969	\$ 32,334,218	\$ (18)	\$ -0-	\$ 151,591	\$ 11,245	\$ 140,346

Table 4



Concluded... (In Thousands of Dollars)

Fund	Cash Balances 10-1-97	Receipts (a)	Disburse- ments (b)	Transfers In	Transfers Out	Cash Balances 9-30-98	Warrants Outstanding	Available Balances 9-30-98
TRUST AND AGENCY								
Michigan Employment Security Act Contingent	\$ 79,969	\$ 16,481	\$ -0-	\$ -0-	\$ 12,802	\$ 83,648	\$ -0-	\$ 83,648
Vietnam Veterans' Memorial Monument	149	264	185	-0-	-0-	228	-0-	228
Bankrupt Self Insured Corporations'								
Workers' Disability Fund #8	247	14	-0-	-0-	-0-	261	-0-	261
Bankrupt Self Insured Corporations'								
Workers' Disability Fund #9	199	-0-	-0-	-0-	198	-0-	-0-	-0-
Bankrupt Self Insured Corporations'								
Workers' Disability Fund #11	312	18	-0-	-0-	-0-	330	-0-	330
Bankrupt Self Insured Corporations'								
Workers' Disability Fund #12	416	24	5	-0-	-0-	435	-0-	435
Metropolitan Planning	74	6,623	5,309	-0-	-0-	1,388	28	1,360
Children's Institute Trust	101	6	-0-	-0-	1	105	-0-	105
Abandoned and Unclaimed Property (Escheats)	21,553	37,672	(206)	-0-	43,267	16,164	572	15,592
Gifts, Bequests and Deposits Investment	27,724	69,601	64,917	-0-	3,917	28,491	762	27,729
Silicosis, Dust Disease, and Logging Industry Compensation	8,428	3,125	6,292	-0-	8	5,254	171	5,083
Assigned Claims Plan	582	39,250	34,076	-0-	560	5,196	6,211	(1,015)
Agricultural College Fund - Morrill Act	1,059	-0-	-0-	-0-	-0-	1,059	-0-	1,059
Second Injury	31,800	23,202	24,753	-0-	22	30,228	584	29,644
Hospital Patients' Trust	900	2,762	3,084	-0-	-0-	578	64	514
Federal Housing Administration Mortgages Escrow	8,090	19,820	24,846	-0-	-0-	3,065	1	3,064
Self-Insurers' Security	3,334	785	2,032	994	6	3,075	33	3,042
State Employees' Deferred Comp. I (457)	475	63,684	63,800	-0-	-0-	359	35	324
State Employees' Deferred Comp. II (401k)	609	88,516	89,124	-0-	-0-	-0-	-0-	-0-
Bankrupt Self Insured Corporations'								
Workers' Disability Fund #6	91	5	-0-	-0-	-0-	96	-0-	96
Bankrupt Self Insured Corporations'								
Workers' Disability Fund #7	87	-0-	-0-	-0-	87	-0-	-0-	-0-
State Employees' Defined Contribution Plan	-0-	13,365	13,365	-0-	-0-	-0-	-0-	-0-
Special Assessment Deferment	173	301	164	-0-	(1)	312	4	308
Workers' Disability Compensation Multiple Trust Funds	118	7	-0-	-0-	-0-	124	-0-	124
Bankrupt Self Insured Corporations'								
Workers' Disability Fund #3	3	-0-	-0-	-0-	3	-0-	-0-	-0-
Hazardous and Solid Waste Disposal Facilities								
Closure Guarantee	3,415	325	45	-0-	-0-	3,695	-0-	3,695
Insurance Carrier Deposits	918	49,562	49,755	-0-	-0-	725	176	549
Urban Land Assembly Loan	3,499	167	773	-0-	1	2,892	-0-	2,892
Utility Consumer Representation	681	677	264	-0-	332	762	-0-	762
Bankrupt Self Insured Corporations'								
Workers' Disability Fund #1	582	102	64	-0-	-0-	619	2	617
Bankrupt Self Insured Corporations'								
Workers' Disability Fund #4	547	-0-	-0-	(6)	541	-0-	-0-	-0-
Bankrupt Self Insured Corporations'								
Workers' Disability Fund #5	109	(7)	-0-	-0-	-0-	102	-0-	102
Bankrupt Self Insured Corporations'								
Workers' Disability Fund #2	245	13	84	-0-	-0-	175	-0-	174
Fred Sanders Inc., Workers' Compensation Trust	163	-0-	-0-	-0-	163	-0-	-0-	-0-
Transportation Related Trust	(7,227)	118,046	124,801	6,543	4	(7,442)	5,155	(12,597)
State Treasurer's Escrow and Paying Agent	-0-	35	35	-0-	-0-	-0-	-0-	-0-
Total Trust and Agency	\$ 189,428	\$ 554,446	\$ 507,566	\$ 7,531	\$ 61,914	\$ 181,924	\$ 13,799	\$ 168,126
GRAND TOTALS	\$ 2,494,446	\$ 70,726,992	\$ 69,998,748	\$ 3,625,826	\$ 3,625,826	\$ 3,222,690	\$ 255,418	\$ 2,967,272

Table 5



Demand Depositories as of September 30, 1998 (In Thousands of Dollars)

City	Depository Bank	Deposits (a)	City	Depository Bank	Deposits (a)
Adrian	Adrian State Bank	\$ 108	Grand Rapids	Old Kent Bank	\$ 2,360
	Bank of Lenawee	88	Grayling	Chemical Bank North	31
Alma	Bank of Alma	96	Hancock	Superior National Bank and Trust	106
Bad Axe	Signature Bank	48	Hart	Huntington National Bank	41
Baldwin	Lake Osceola State Bank	6	Hastings	National Bank of Hastings	93
Bay City	Chemical Bank Bay Area	58	Hillsdale	Hillsdale County National Bank	81
Benton Harbor	Shoreline Bank	183	Houghton	First National Bank	9
Beulah	Central State Bank	41			
Big Rapids	Chemical Bank Central	26	Ionia	Independent Bank	96
				Ionia County National Bank	58
Cadillac	Chemical Bank - West	23	Iron Mountain	First National Bank of Iron Mountain	33
Caro	Chemical Bank - Thumb Area	57	Iron River	MFC First National Bank	47
	Independent Bank - East Michigan	3	Ishpeming	Peninsula National Bank	37
Cheboygan	Citizens National Bank	62	Ithaca	Commercial National Bank	7
Chelsea	Chelsea State Bank	68			
Clare	Chemical Bank Michigan	13	Jackson	Citizens Bank	201
Coldwater	Century Bank and Trust	76			
	Southern Michigan National Bank	69	Kalamazoo	First of America Bank	4,052
Croswell	Eastern Michigan Bank	42			
Crystal Falls	First National Bank of Crystal Falls	8	L'Anse	Commercial National Bank	31
			Lansing	Michigan National Bank	4,635
			Lapeer	Lapeer County Bank and Trust	190
Detroit	Comerica Bank - Detroit	3,550	Manistee	Huntington National Bank	12
	First Independence National Bank	2	Manistique	North Country Bank	79
	NBD Bank, N.A.	115,531		State Savings Bank	22
Dowagiac	Huntington National Bank	6	Marquette	MFC First National Bank	140
			Marshall	Chemical Bank South	60
East Pointe	First State Bank	155	Mason	Mason State Bank	148
East Jordan	Huntington National Bank	4	Menominee	First National Bank and Trust	9
East Tawas	Huron Community Bank	53	Midland	Chemical Bank - Central	119
Escanaba	MFC First National Bank and Trust	172	Monroe	Monroe Bank and Trust	148
	Northern Michigan Savings Bank	15	Mt. Pleasant	Isabella Bank and Trust	45
	State Bank of Escanaba	36	Munising	Peoples State Bank of Munising	97
			Muskegon	FMB Bank - Lumberman's Bank	29
Fenton	The State Bank	82	Newberry	Tahquamenon Area Credit Union	29
Flint	Citizens Banking Corporation	1,975	Norway	First National Bank	42
Gladstone	Bay Bank	2	Ontonagon	Citizens State Bank	89
			Owosso	Chemical Bank - Key State	73

Table 5



Concluded... (In Thousands of Dollars)

City	Depository Bank	Deposits (a)	City	Depository Bank	Deposits (a)
Port Austin	Port Austin State Bank	\$ 12	Sparta	Choice One	\$ 79
Reed City	Huntington National Bank	13	Stanton	Chemical Bank - Montcalm	73
Rockford	Independent Bank - West Michigan	20	Stockbridge	Stockbridge State Bank	7
St. Charles	Community State Bank of St. Charles	47	Three Rivers	First National Bank	46
St. Ignace	First National Bank of St. Ignace	1,087	Traverse City	Empire National Bank	5
St. Joseph	Pinnacle Bank	44	Troy	Huntington Bank of Michigan	214
Sault Ste. Marie	Central Savings Bank	9	Wakefield	First National Bank	4
	Soo Co-Op Credit Union	25	West Branch	Bank of West Branch	37
Shelby	Shelby State Bank	44	Zeeland	Huntington National Bank	345
				Total	\$ 138,022

(a) Deposits represent the account balance reported on bank statements and include deposits which are in the process of being collected through the banking system. Deposits are rounded to the nearest thousand and are secured by \$382 million of collateral.

Bonds & Notes

The Michigan Constitution limits state general obligation debt to (i) short-term debt for State operating purposes, (ii) short and long-term debt for the purpose of making loans to school districts, and (iii) long-term debt for voter-approved purposes.

Short-term debt for operating purposes is limited to an amount not in excess of 15 percent of undedicated revenues received during the preceding fiscal year. Under the Michigan Constitution as implemented by statutory provisions, such debt must be authorized by the State Administrative Board and issued only to meet obligations incurred pursuant to appropriation and must be repaid during the fiscal year in which it was incurred. Such debt does not require voter approval.

The amount of debt incurred by the state for the purposes of making loans to school districts is recommended by the State Treasurer, who certifies the amounts necessary for loans to school districts for the ensuing two calendar years. The bonds may be issued in whatever amount is required without voter approval. All other general obligation bonds issued by the State must be approved as to amount, purpose, and method of payment by a two-thirds vote of each house of the Legislature and by a majority vote of the public at a general election. There is no limitation as to number or size of such general obligation issues.

General Obligation Debt

All current general obligation bond and note issues are presented in Table 6, *General Obligation Debt, Bond and Note Payments*, below. During fiscal 1998, the State issued \$250 million of general obligation long-term debt. The State also issued \$900 million of short-term debt which was repaid in September 1998.

Special Authority Revenue Bond Debt

Certain governmental authorities issue revenue bonds for construction projects and to acquire or build facilities for the State or its institutions of higher learning. These bonds, as shown in Table 7, *Special Authority Revenue Bond Debt*, are obligations of the individual authorities and are not direct general obligations of the State.

Special Revenue Debt

The state periodically issues long-term bonds for specific purposes, as presented in Table 11, *Special Revenue Debt Bond and Note Payments*, on page 26. These issues are not supported by the state's general credit, and their financing comes strictly from the designated revenue sources.



Table 6

General Obligation Debt, Bond and Note Payments (In Thousands of Dollars)

Item		Issue Date	Maturity Dates	New Issues	Principal Payments	Interest Payments *	Outstanding Principal as of 9-30-98
School Loan Notes and Bonds (a)	Series 1995 Series 1998	1995 1998	1996-2015 2000-2017	\$ -0- 160,000	\$ 5,775 -0-	\$ 9,525 -0-	\$ 168,670 160,000
Water Resources Bonds (b)	Series III Series IV Series VI	1971 1971 1972	1979-1999 1973-1999 1974-1998	-0- -0- -0-	2,000 2,000 1,000	2 120 20	2,000 2,000 -0-
Environmental Protection (c)	Series 1989 (d) Series 1992 (e) Water Pollution 1992 Water Pollution 1993 Series 1995 Series 1998	1989 1992 1992 1993 1995 1998	1994-2019 2005-2012 1994-2012 1995-2013 1996-2019 1998-2017	-0- -0- -0- -0- -0- 90,000	6,885 2 650 645 -0- -0-	909 5,183 725 755 9,984 -0-	27,200 103,006 11,425 14,775 204,321 90,000
Recreation (f)	Series 1992 Series 1995	1992 1995	1993-2004 1996-2019	-0- -0-	9,490 2,660	3,994 1,440	65,560 25,115
General Obligation Notes (g)		1998	1998	900,000	900,000	35,663	-0-
Total General Obligation Debt				\$ 1,150,000	\$ 931,107	\$ 68,320	\$ 874,072

- (a) Article Nine of the Constitution of the State of Michigan provides that the State may borrow from time to time such amounts as shall be required for the purpose of making loans to school districts. Requirements are established biennially and general obligation debt is issued as needed.
- (b) P.A. 76 of 1968, provided for the issuance of \$335 million General Obligation Bonds, of which all have been issued. Series I, II, V, VI, VII and VIII have been retired.
- (c) Outstanding principal does not include the Home Ownership Savings Trust ("HOST") Bonds issued as Environmental Protection General Obligation Bonds after September 30, 1990. These variable rate bonds were issued on a monthly basis over a five year period. October 1995 was the last month HOST Bonds could be purchased. As of September 30, 1998, \$945,151 in principal has been issued and \$844,291 has been redeemed.
- (d) \$23,243,692 was advance refunded in June 1995 through General Obligation Bonds, Series 1995. As of September 30, 1998, no principal has been paid out, leaving an escrowed principal liability as of September 30, 1998 of \$23,243,692. Interest paid for fiscal year 1997 was \$1,286,196.
- (e) \$43,820,000 was advance refunded in June 1995 through General Obligation Bonds, Series 1995. As of September 30, 1998, no principal has been paid out, leaving an escrowed principal liability as of September 30, 1998 of \$43,820,000. Interest paid for fiscal year 1998 was \$2,738,750. Outstanding principal includes \$493,740 in College Saver Minibonds but does not include redemptions of \$6,911 as of September 30, 1998. Redemptions for fiscal year 1998 were \$2,212.
- (f) P.A. 329 of 1988, provided for the issuance of \$140 million General Obligation Bonds, all of which have been issued.
- (g) General Obligation Notes. The State Constitution limits the principal amount of all such notes issued in a particular fiscal year to an amount not in excess of 15 percent of the undedicated revenues received by the state in the preceding fiscal year. The notes must be repaid in the fiscal year in which incurred.

* Interest payments do not include premium.

Table 7



Special Authority Revenue Bond Debt (In Thousands of Dollars)

Item (a)	New Issues	Principal Payments	Interest Payments	Outstanding Principal As of 9-30-98
Special Authority Revenue Bond (a)				
International Bridge Authority	\$ -0-	\$ 575	\$ 101	\$ 2,805
Mackinac State Park	-0-	160	189	2,200 *
Michigan State Housing Development Authority (b)	167,972	147,833	126,817	2,088,563
Michigan State Hospital Finance Authority (c)	1,331,025	143,053	229,223	3,586,525 *
Michigan Higher Education Facilities Authority	62,685	19,240	10,405	218,190
Michigan Higher Education Student Loan Authority	332,611	188,135	39,450	817,425
Michigan Municipal Bond Authority	617,428	524,636	99,873	1,685,997
Michigan State Building Authority (d)	488,395	103,560	93,616	1,996,787 *
Michigan Strategic Fund	239,395	145,357	N/A	2,182,659 *
Michigan Underground Storage Tank				
Financial Assurance Authority (e)	-0-	12,395	11,439	193,555
Michigan Family Farm Development Authority	-0-	100	N/A	1,008
Total Special Authority Debt	\$ 3,239,511	\$ 1,285,044	\$ 611,113	\$ 12,775,714

* All or part of the principal amount not presented, and not represented in the totals due to the advance refunding of all or part of this obligation.

(a) Not administered by Department of Treasury. Information in the table is provided by each Authority.

(b) The new issues include \$161,540,000 of new bond issues plus \$6,432,030 of capital appreciation for the fiscal year.

(c) Balance includes \$3,446,424,576 in bonds and \$140,100,000 in Hospital Equipment Loan Program notes (HELP). Balance does not include MSHFA obligations that have been advance refunded. In FY 1998, net escrow payment activity was \$266,509,912, leaving an escrowed principal liability as of 9-30-98 of \$912,207,123.

(d) Balance includes accreted value at year-end on outstanding Capital Appreciation Bonds. Balance does not include \$1,234.4 million in SBA obligations that have been advance refunded. In FY 1998, \$55.6 million in principal was paid out of escrow, leaving an escrowed principal liability as of 9-30-98 of \$448.2 million. Also, outstanding principal balance does not include commercial paper notes issued by the Authority. As of September 30, 1998, \$180.1 million of commercial paper notes was outstanding.

(e) Outstanding principal balance does not include notes issued under the Authority's tax-exempt commercial paper program during fiscal years 1995-98. As of September 30, 1998, \$44,465,000 was outstanding and interest paid during the fiscal year was \$2,172,910.

Table 8



General Obligation Bond Payment Schedule (a) (In Thousands of Dollars)

For Period Ended September 30,	Principal	Interest	Total
1999	\$ 34,695	\$ 44,996	\$ 79,691
2000	36,015	46,623	82,638
2001	37,822	43,738	81,560
2002	39,226	42,258	81,484
2003	41,356	40,451	81,807
2004	42,931	38,776	81,707
2005	44,793	36,807	81,600
2006	46,978	33,320	80,298
2007	45,050	33,461	78,511
2008	48,529	29,914	78,443
2009	48,007	30,409	78,416
2010	49,433	28,309	77,742
2011	55,586	21,495	77,081
2012 (b)	54,881	21,733	76,614
2013	57,115	11,758	68,873
2014	37,040	9,159	46,199
2015	38,040	7,147	45,187
2016	40,455	5,041	45,496
2017	27,495	3,251	30,746
2018	28,890	1,806	30,696
2019	9,590	807	10,397
2020	10,145	274	10,419
	<u>\$ 874,072</u>	<u>\$ 531,533</u>	<u>\$ 1,405,605</u>

- (a) Does not include the Home Ownership Savings Trust ("HOST") Bonds issued as Environmental Protection general obligation bonds after September 30, 1990. These variable rate bonds were issued on a monthly basis over a five-year period. October 1995 was the last month HOST bonds could be purchased. As of September 30, 1998, \$945,151 in principal has been issued and \$844,291 has been redeemed.
- (b) Does not include principal redemption of \$6,911 in College Savers Minibonds.

Table 9



Bonds and Notes Payable by Fiscal Year (In Thousands of Dollars)

Item	Outstanding on September 30				
	1994	1995	1996	1997	1998
GENERAL OBLIGATION DEBT					
School Loans	\$ 55,800	\$ 180,000	\$ 180,000	\$ 174,445	\$ 328,670
Water Resources	29,000	19,000	14,000	9,000	4,000
Environmental Protection	254,669	386,876	377,823	368,914	450,727 *
Recreation	98,570	120,130	113,160	102,825	90,675
Total General Obligation Debt	<u>\$ 438,039</u>	<u>\$ 706,006</u>	<u>\$ 684,983</u>	<u>\$ 655,184</u>	<u>\$ 874,072</u>
NON-GENERAL OBLIGATION DEBT					
Michigan Department of Transportation Tax Dedicated Bonds	\$ 903,467	\$ 888,058	\$ 854,196	\$ 873,701	\$ 866,018 *
Special Authorities-Revenue Bonds and Notes					
International Bridge Authority	7,850	7,850	5,905	3,380	2,805
Mackinac State Park	2,715	2,625	2,520	2,360	2,200 *
Michigan State Housing Development Authority	1,976,474	1,985,947	1,987,286	2,068,424	2,088,563
Michigan State Hospital Finance Authority	2,302,978	2,467,726	2,777,024	2,887,783	3,586,525 *
Michigan Higher Education Facilities Authority	115,035	151,380	179,135	174,745	218,190
Michigan Higher Education Student Loan Authority	531,280	557,939	625,424	672,949	817,425
Michigan Municipal Bond Authority	1,403,937	1,469,051	1,368,035	1,591,875	1,685,997
Michigan State Building Authority (a)	1,494,439	1,453,388	1,478,896	1,616,717	1,996,787 *
Michigan Strategic Fund	1,687,310	1,881,278	1,991,591	2,088,621	2,182,659 *
Michigan Underground Storage Tank Financial Assurance Authority	-0-	206,100	216,600	205,950	193,555
Michigan Family Farm Development Authority	2,516	1,843	1,659	1,108	1,008
Total Non-General Obligation Debt	<u>\$ 10,428,001</u>	<u>\$ 11,073,185</u>	<u>\$ 11,488,271</u>	<u>\$ 12,187,613</u>	<u>\$ 13,641,732</u>

* All or part of the principal amount not presented, and not represented in the totals due to the advance refunding of all or part of this obligation.

(a) The 1994 balance has been restated to reflect the accreted value only through year-end on outstanding Capital Appreciation Bonds.

Table 10



Local Government Unit Bonds and Notes (In Thousands of Dollars)

Item (a)	1994		1995		1996		1997		1998	
	No. of Issues	Amount	No. of Issues	Amount	No. of Issues	Amount	No. of Issues	Amount	No. of Issues	Amount
SCHOOLS										
Notes	291	\$ 654,978	230	\$ 404,221	248	\$ 342,006	283	\$ 465,788	273	\$ 550,839
Bonds	121	1,169,408	96	1,347,477	152	2,332,328	139	1,974,489	150	2,763,400
Community College Bonds and Notes	9	86,805	3	9,900	5	49,325	6	31,765	9	86,430
Energy Conservation Bonds and Notes	4	1,442	5	2,261	25	23,122	8	15,535	12	15,129
Other (b)	16	-0-	6	452	29	735	38	-0-	19	-0-
Totals	441	\$ 1,912,633	340	\$ 1,764,312	459	\$ 2,747,516	474	\$ 2,487,577	463	\$ 3,415,798
MUNICIPALITIES										
Tax Notes	89	\$ 640,506	63	\$ 396,749	60	\$ 329,668	54	\$ 286,127	50	\$ 295,410
Special Assessment Bonds	60	66,955	65	40,689	58	47,593	50	43,023	58	53,457
General Obligation Bonds	166	783,400	182	1,015,038	132	661,916	165	783,997	172	1,107,572
Revenue Bonds	91	1,117,986 (c)	63	263,901 (d)	95	2,020,019 (e)	72	1,307,247 (f)	125	2,582,019 (g)
Drain Bonds (Act 40)	33	155,838	21	54,020	15	27,275	19	30,082	19	27,852
Transportation Fund Bonds (Act 51)	2	4,050	-0-	-0-	-0-	-0-	1	1,150	8	130,380
Transportation Fund Bonds (Act 143)	4	7,640	3	4,140	5	2,710	3	2,155	3	6,150
Transportation Fund Bonds (Act 175)	17	18,500	21	30,409	18	25,658	18	19,895	19	33,985
Water and Sewer Bonds (Act 185)	41	171,640	30	117,850	31	112,790	33	320,522	35	88,023
Water and Sewer Bonds (Act 342)	28	96,020	11	23,610	12	55,688	11	22,492	-0-	-0-
Michigan and Michigan Authority (Bonds)	30	1,495,316	24	2,217,370	28	2,663,500	20	1,416,025	25	2,262,500
Michigan and Michigan Authority (Notes)	2	245,000	2	290,000	1	300,000	4	1,850,000	2	1,595,000
Miscellaneous Bonds and Notes	16	140,579	15	15,917	18	557,968	37	28,450	34	379,680
Other	4	-0-	3	188	3	341	1	-0-	7	-0-
Totals	583	\$ 4,943,430	503	\$ 4,469,881	476	\$ 6,805,126	488	\$ 6,111,165	557	\$ 8,562,028
GRAND TOTAL	1,024	\$ 6,856,063	843	\$ 6,234,193	935	\$ 9,552,642	962	\$ 8,598,742	1,020(h)	\$ 11,977,826

- (a) Figures reflect approvals granted as of September 30 of the respective year. Approved issues may or may not have been sold by the unit of local government.
 (b) Includes transfer of debt service funds remaining after final maturity of original debt; use of excess bond proceeds and derivative products.
 (c) Includes 1 issue totaling \$2,000 thousand of Industrial Revenue Bonds.
 (d) Includes 1 issue totaling \$1,800 thousand of Industrial Revenue Bonds.
 (e) Includes 1 issue totaling \$1,500 thousand of Industrial Revenue Bonds.
 (f) Includes no issues of Industrial Revenue Bonds.
 (g) Includes 2 issues of Industrial Revenue Bonds.
 (h) Includes 275 Prior Approval Orders issued and 745 Exception from Prior Approval Orders issued.

Table 11



Special Revenue Debt Bond and Note Payments (In Thousands of Dollars)

Item	Issue Date	Maturity Dates	Amount Issued	Principal Payments	Interest Payments	Outstanding Principal as of 9-30-98
Michigan Department of Transportation Tax Dedicated Bonds Michigan Comprehensive Transportation:	Series 1985 RF, SR, 1988-I RF, SR, 1988-II Series 1992-A RF, SR, 1992-B RF, SR, 1996-A RF, SR, 1998-A	1985 1988 2009 2011 2022 2011 2014 2010	\$ 57,830 73,155 31,992 37,655 127,310 22,650 38,640	\$ 715 4,195 2,056 705 2,060 70 -0-	\$ 1,625 574 1,027 1,725 7,105 1,213 -0-	\$ 1,095 * 4,274 * -0 * 30,530 * 122,700 22,580 38,640
State Trunkline Fund:	Series 1989-A Series 1992-A RF, SR, 1992-B I & II Series 1994-A RF, SR 1994-B SR, 1996-A RF, SR, 1998-A	1989 1992 2021 1994 2002 2026 2026	135,780 253,618 99,592 150,000 90,990 54,500 377,890	3,430 -0- -0- 2,275 22,185 690 -0-	1,102 12,314 5,283 8,122 2,856 3,069 -0-	14,855 * 122,423 * 42,812 * 30,700 * 44,880 12,640 * 377,890
Total Special Revenue Debt				\$ 38,381	\$ 46,015	\$ 866,019

* All or part of the principal amount not presented and not represented in the totals due to the advance refunding of all or part of this obligation. The table below summarizes the advance refunding activity by issue.

Series	Advanced Refunded From Series	Amount Refunded	FY 98 Paid from Escrow Principal	FY 98 Escrow Interest	FY 98 Escrow Balance
Comprehensive Transportation:					
1985	1988-II & 1992-B	\$ 27,176	\$ -0-	\$ -0-	\$ 6,091
1988-I	1992-B	60,890	60,890	4,549	-0-
1992-A	1996-A	5,305	-0-	299	5,100
Trunkline Transportation:					
1989-A	1992-B & 1994-B & 1998-A	111,245	600	6,365	103,075
1992-A	1998-A	131,195	-0-	-0-	131,195
1992-B I & II	1998-A	56,780	-0-	-0-	56,780
1994-A	1998-A	112,815	-0-	-0-	112,815
1996-A	1998-A	41,170	-0-	-0-	41,170
Totals			\$ 61,490	\$ 11,213	\$ 456,226

State Tax Collections

State taxes and fees totalling \$19,281,373,000 were collected during fiscal 1998, which is an increase of 5.8 percent over the previous year.

During fiscal year 1994 a number of changes were enacted to tax rates including reducing individual income tax rate from 4.6 percent to 4.4 percent, increasing sales and use tax rate from 4 percent to 6 percent, increasing cigarette levy from \$.25 to \$.75 per pack, levy of a statewide property tax at 6 mills and a .75

percent real estate transfer tax. Fiscal year 1995 was the first year these changes were in effect for a full 12 months.

Major tax collections for fiscal 1998 and the previous four years are detailed in Table 12, *Taxes and Fees Collected*, below. Table 13, *Michigan State Taxes*, identifies all Michigan taxes and gives administrative information about each.



Table 12

Taxes and Fees Collected on a Cash Basis (In Thousands of Dollars)

Type of Revenue	10-1-93 to 9-30-94	10-1-94 to 9-30-95	10-1-95 to 9-30-96	10-1-96 to 9-30-97	10-1-97 to 9-30-98
Income Tax: (a)					
Withholding Tax	\$ 5,015,073	\$ 5,263,644	\$ 5,461,771	\$ 5,755,797	\$ 6,096,765
Individual Income Tax	333,145	470,067	387,202	521,535	644,122
Individual Income Tax Estimates	454,614	470,685	528,312	605,749	651,597
Individual Income Tax Penalty and Interest	20,012	18,136	24,504	23,101	23,816
Gross Individual Income Tax Collections	5,822,844	6,222,532	6,401,789	6,906,182	7,416,300
Tax Refunds and Tax Credits (b)	(1,409,974)	(975,300)	(1,036,053)	(971,517)	(1,019,217)
Net Individual Income Tax	\$ 4,412,870	\$ 5,247,232	\$ 5,365,736	\$ 5,934,665	\$ 6,397,083
Single Business Tax	\$ 2,075,470	\$ 2,283,434	\$ 2,263,546	\$ 2,369,332	\$ 2,500,815
Single Business Tax Penalty and Interest	50,389	47,859	40,844	59,266	47,042
Gross Single Business Tax	2,125,859	2,331,293	2,304,390	2,428,598	2,547,857
Tax Refunds	(109,312)	(115,156)	(140,677)	(158,936)	(174,610)
Net Single Business Tax	\$ 2,016,547	\$ 2,216,137	\$ 2,163,713	\$ 2,269,662	\$ 2,373,247
Motor Fuel Taxes	\$ 762,262	\$ 777,218	\$ 775,414	\$ 807,235	\$ 1,028,851
Sales Tax (c)	3,671,357	4,873,983	5,189,633	5,375,659	5,565,908
Use Tax (c)	701,069	936,455	1,033,921	1,095,817	1,151,208
Sales, Use, Withholding Penalty and Interest	41,716	42,350	70,237	60,787	56,980
Tobacco Products Tax (d)	363,118	610,491	573,185	534,359	546,718
Non-Cigarette Tobacco Products Tax (d)	3,050	10,343	10,917	11,486	12,631
Intangibles Tax	124,339	133,811	69,571	77,408	44,776
Inheritance Tax (e)	47,193	3,728	3,960	1,085	842
Estate Tax (e)	15,828	81,100	84,210	78,390	99,775
Public Utility Property Tax	127,075	128,066	137,748	147,673	101,847
Gas and Oil Severance Tax	32,706	29,038	36,296	39,681	33,327
Gas and Oil Privilege Fee	6,327	5,018	6,377	7,069	6,159
Industrial/Commercial Facilities Tax	53,674	110,376	127,643	114,800	123,343
Convention Facility Tax	11,226	12,213	13,370	13,948	15,486
Underground Regulatory Fee	57,632	54,058	57,491	58,030	57,259
Insurance-Retaliatory Tax	185,339	205,505	205,694	200,597	138,834
State Education Tax (f)	155,555	1,074,361	1,088,314	1,129,777	1,237,065
Real Estate Transfer Tax (g)	- - -	63,474	156,824	186,656	224,405
Other Taxes and Fees (h)	72,740	70,007	41,441	87,865	65,629
TOTAL	\$ 12,861,623	\$ 16,684,964	\$ 17,211,695	\$ 18,232,649	\$ 19,281,373

(a) Effective May 1, 1994, the Individual Income Tax rate decreased from 4.6 percent to 4.4 percent.

(b) Home Heating Credits subsequently reimbursed by the Federal Government are as follows: FY 1994 \$8.7 million, FY 1995 \$11.1 million, FY 1996 \$4.5 million, FY 1997 \$5.4 million and FY 1998 \$6.2 Million. Home Heating drafts funded by the Federal Government are not included in the reported Tax Refunds and Tax Credits. Federally funded home heating drafts were \$61.1 million in FY 1994, \$56.1 million in FY 1995, \$24.6 million in FY 1996, \$34.6 million in FY 1997 and \$33.9 million in FY 1998.

(c) Effective May 1, 1994, the Sales Tax rate and the Use Tax rate increased from 4 percent to 6 percent.

(d) Effective May 1, 1994, the cigarette tax levy was increased from \$.25 per pack to \$.75 per pack and a 16 percent tax was levied on all non-cigarette tobacco products.

(e) Public Act 54 of 1993 replaced the Inheritance Tax for dates of death after September 30, 1993 with the Estate Tax

(f) Public Act 331 of 1993 established a statewide property tax of 6 mills on all property not exempt by law.

(g) Public Act 330 of 1993 established a transfer tax on the transfer of all real property of \$.75 per \$500.

(h) Includes Circuit Court, Probate Court and District Court Fees, Unclaimed Personal Property, State Housing Development Service, Commercial Forest Tax, Trailer Coach Parks Tax and Airport Parking Tax.

Table 13



Michigan State Taxes (In Thousands of Dollars)

Tax Source	Year Adopted	Administered by Department of	Payment Deadline	Net Cash Receipts 10-1-97 to 9-30-98	Disposition
Aircraft Registration	1923	Transportation	August 1	\$ 86	State Aeronautics Fund
Airport Parking	1987	TREASURY	15th of each month	13,735	Local Units
Aviation Fuel	1929	TREASURY	20th of each month	6,645	State Aeronautics Fund
Beer and Wine Excise	1933	Consumer & Industry Services	Monthly reports and/or stamps	48,550	General Fund
Tobacco Products	1947	TREASURY	20th of each month	546,718	63.4% to School Aid Fund, 25.3% to General Fund, 11.3% to Local Units
Non-Cigarette Tobacco Products	1994	TREASURY	20th of each month	12,631	94% to School Aid Fund, 6% to Local Units
Commercial Facilities	1978	TREASURY	December 1	3,476	Local Units and School Aid Fund
Convention Facility Development	1985	TREASURY	15th of each month	15,486	Debt Service for Cobo Hall Expansion
Corporate Organization	1891	Consumer & Industry Services	At time of incorporation, admission or increase in stock	7,196	General Fund
Diesel Fuel	1947	TREASURY	20th of each month	79,382	Michigan Transportation Fund
Diesel Fuel Dealer License	1951	TREASURY	January 1	20	Michigan Transportation Fund
Estate	1994	TREASURY	Within 105 days after death, except contingent transfers-due at vesting	99,775	General Fund
Gas and Oil Privilege Fee	1973	TREASURY	25th of each month	6,159	General Fund
Gas and Oil Severance	1929	TREASURY	25th of each month	33,327	General Fund
Gasoline	1925	TREASURY	20th of each month	900,705	Michigan Transportation Fund
Horse Race Wagering	1933	Agriculture	At end of each day's racing	12,717	Agriculture Equine Industry Development Fund
Individual Income	1967	TREASURY	April 15	6,397,083	General Fund with 23% of gross to School Aid Fund
Industrial Facilities	1974	TREASURY	December 1	119,409	Local Units and School Aid Fund
Inheritance	1899	TREASURY	Within 105 days after death, except contingent transfers-due at vesting	842	General Fund
Insurance Company Retaliatory	1987	TREASURY	Last day of April, July, Oct. and Jan.	138,834	General Fund
Intangibles	1939	TREASURY	April 30, or last day of 4th month after end of taxpayer's tax year	44,776	General Fund
Liquified Petroleum Gas	1953	TREASURY	20th of each month	1,025	Michigan Transportation Fund
Liquor Excise - 4%	1957	Consumer & Industry Services	At time of sale to retail licensees	23,917	School Aid Fund
Liquor Specific - 4%	1959	Consumer & Industry Services	At time of sale to retail licensees	24,596	General Fund
Liquor Specific - 1.85%	1972	Consumer & Industry Services	At time of sale to retail licensees	8,846	Liquor Purchase Revolving Fund
Liquor - 4% Tourism and Convention Facilities	1985	Consumer & Industry Services	At time of sale to retail licensees	24,575	Debt Service for Cobo Hall Expansion and Local Units
Marine Fuel	1947	TREASURY	20th of each month	151	Michigan State Waterways Fund
Motor Carrier Diesel Fuel	1980	TREASURY	Last day of month following close of qtr.	40,859	Michigan Transportation Fund
Motor Carrier's Privilege	1923	Consumer & Industry Services	December 1	3,370	Michigan Transportation Fund
Motor Vehicle Weight or Value	1905	State	Owner's birthday	664,968	Michigan Transportation Fund
Public Utility Property	1905	TREASURY	July 1, or 1/2 on August 1, 1/2 on Dec. 1	101,847	General Fund
Real Estate Transfer	1994	TREASURY	County Treasurer remits to State on the 15th in the month after receipt	224,405	School Aid Fund
Sales	1933	TREASURY	15th of each month	5,565,908	73.3% to School Aid Fund, 1.7% to General Fund, 1.3% to Comprehensive Transportation Fund, 23.7% to Local Units
Single Business	1975	TREASURY	April 30, or last day of 4th month after end of taxpayer's tax year	2,373,247	General Fund
State Education	1994	TREASURY	County Treasurer remits to State the month after receipt from Local Units	1,237,065	School Aid Fund
Snowmobile Registration	1968	State	October 1 (every 3rd year)	871	General Fund
Underground Regulatory	1989	TREASURY	10th and 25th of each month	57,259	Michigan Underground Storage Tank Financial Assurance Fund
Use	1937	TREASURY	15th of each month	1,151,208	66.7% to General Fund, 33.3% to School Aid Fund
Watercraft Registration	1967	State	January 1 (every 3rd year)	9,651	17.5% to Michigan State Waterways Fund, 33.5% to Harbor Development Fund, 49% to Marine Safety Fund

Local Property Taxes

Local property taxes in Michigan are levied by local units of government - school districts, cities, counties, townships and villages. Each of Michigan's 83 counties then "equalizes" the local assessments.

Equalization ensures that similar properties in different areas are assessed equitably. Following county equalization, the State Tax Commission equalizes among counties.

Table 14 shows state, county and local equalized valuations for calendar year 1997 and the prior decade. This table also lists the total Taxable Valuation beginning with the 1994 tax year and lists the average tax rate (millage) for each year. Table 15 shows how property tax dollars are apportioned among the various taxing units.

Michigan taxpayers' local property tax burden is lessened substantially by an income tax credit for property taxes paid.

Table 14



Local Property Tax Valuation, Levies and Average Rates (In Millions of Dollars)

Calendar Year	Local Assessed Valuation	County Equalized Valuation	State Equalized Valuation	Taxable Valuation (a)	Total Taxes Levied	Average Rate (Mills) (b)	Homestead Average Rate (c)	Non-Homestead Average Rate
1997	\$ 216,682	\$ 216,745	\$ 216,745	\$ 202,616	\$ 7,952	39.25	31.36	49.63
1996	200,246	200,341	200,341	191,777	7,536	39.32	31.35	49.52
1995	186,262	186,388	186,395	185,530	7,081	38.88	31.00	48.79
1994	175,280	175,550	175,195	175,195 (a)	6,704	38.19	30.22	48.17
1993	167,651	167,877	167,731	-----	9,501	56.64	-----	-----
1992	154,266	154,284	153,929	-----	8,942	58.09	-----	-----
1991	150,687	150,858	150,665	-----	8,639	57.34	-----	-----
1990	139,921	140,166	139,901	-----	7,998	57.17	-----	-----
1989	128,649	128,813	128,754	-----	7,391	57.40	-----	-----
1988	119,025	119,087	119,013	-----	6,761	56.81	-----	-----
1987	111,387	111,257	111,038	-----	6,215	55.97	-----	-----

(a) Beginning in 1994, property taxes have been levied against Taxable Value, not State Equalized Value.

(b) This is the Average Rate based on all classes of property.

(c) Homesteads include those properties which receive the "homestead" exemption, and those which receive the "qualified agricultural property exemption".

Table 15



Distribution of Local Property Taxes (In Thousands of Dollars)

Taxing Unit	Taxes Levied		Percent of Increase
	1996	1997	
City	\$ 1,487,390	\$ 1,570,957	5.62 %
County	1,219,794	1,281,079	5.02 %
Township	370,704	408,150	10.10 %
Village	60,054	63,244	5.31 %
School	3,248,083	3,413,536	5.09 %
State Education Tax	1,150,083	1,215,693	5.70 %
Totals	<u>\$ 7,536,108 (a)</u>	<u>\$ 7,952,659 (b)</u>	

(a) \$451.5 million of the total property taxes levied in 1996 was refunded to taxpayers through the "circuit breaker" system of homestead property tax credits and farmland preservation credits against State income tax due or as a reimbursement if they exceed the income tax liability.

(b) \$459.2 million of the total property taxes levied in 1997 was refunded to taxpayers through the "circuit breaker" system of homestead property tax credits and farmland preservation credits against State income tax due or as a reimbursement if they exceed the income tax liability.

NOTES

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